

KENTUCKY ECONOMIC INDICATORS

May Indicators as of August 5, 2003

- KY Composite Index of Leading Indicators increased marginally 1.8 percent for May.
 - The Leading Index increased for the first time in the last four months.
 - The Leading Index was down by 0.6 percent over the past 12 months.
 - Component indicators leaned positive as gainers edged losers 3:2.
 - KY Labor Intensity Index decreased moderately 1.3 percent.
 - + The Conference Board's US Leading Index rose a stellar 13.8 percent.
 - + The Index of KY Initial Claims increased 7.7 percent.
 - + Retail Sales increased 0.5 percent.
 - Louisville HWI dropped by 3 points to 47.
- KY Composite Index of Coincident Indicators increased slightly 0.1 percent for May.
 - The Coincident Index increased for only the fourth time in the last 12 months.
 - Year over year change was negative for second straight month by -0.3 percent.
 - Component indicators were mixed with gainers edging losers 2:1.
 - KY Total Nonagricultural Employment fell by 3.7 percent.
 - + US Personal Income Less Transfers grew 4.0 percent.
 - + US Industrial Production increased by 0.7 percent.

The Kentucky Leading Index was bolstered heavily this month by the exceptionally high growth in the US Leading Index. The US Leading Index lies 1.5 percent above its trend line for May. While the KY Leading Index lies 4.2 percent below its trend line for May. This disconnect is not confined to May; the KY Leading Index has been below its trend line since February 2001, while the US Leading Index has been above its trend line since August 1997.

Erratic is perhaps the best way to describe the KY Leading Index in the last two years. The last 24 months of activity in Kentucky have not been particularly illuminating for forecasters, despite the 3 consecutive months of negative growth culminating in April. The trend line over this period is not statistically different from zero, indicating no clear contraction nor expansion path.

The Leading Index is not designed to lead the Coincident Index, but the Coincident Index is a good proxy for identifying the contemporaneous turning points in economic activity in Kentucky. The Leading Index incurred 3+ declining months in a row between April 2000 and August 2000. This triggered our 3-month rule, indicating a downturn in economic activity to occur sometime in the next six to nine months. Those five consecutive decreases were followed by seven more consecutive decreases starting in October 2000. This was followed by a third string of decreases between June 2001 and September 2001. It is not uncommon to experience multiple consistent strings during a period of expansion or contraction. Typically, these multiple strings of consecutive declines (or increases) indicate a prolonged period of contraction (or expansion). In this case, a prolonged period of contraction is indicated. The Coincident Index seems to bear this out. The corresponding period of contraction in the Coincident Index began in October of 2000, a 15 month contraction.

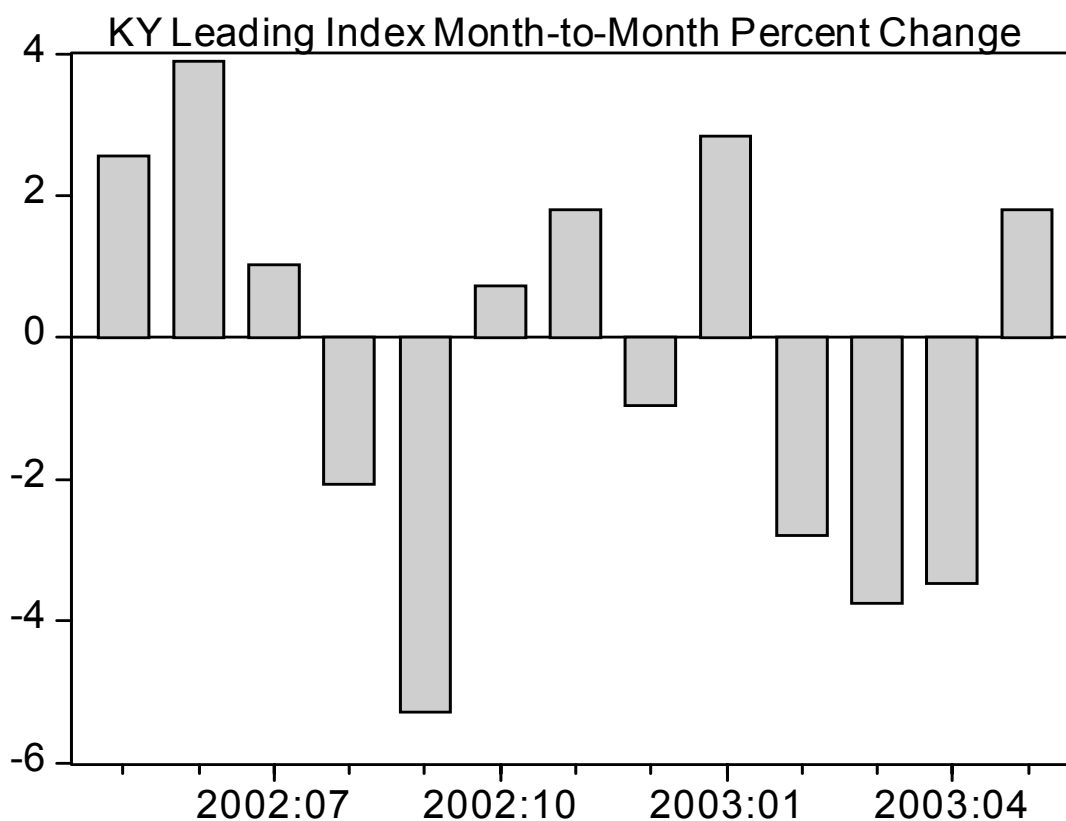
Between December of 2001 and August of 2002 there were two periods of three or more consecutive months of positive growth in the KY Leading Index. The corresponding expansion period was very short in the Coincident series and non-existent in the labor market data. Nationally, both consumer spending and consumer sentiment were positive during this period, driving the expansion. But as we will see, the statewide labor outlook was and still remains less than optimistic.

Kentucky Nonagricultural Employment declined for the fourth consecutive month. Nonagricultural employment has been in steady decline since December of 2000. Employment fell by 0.5 percent in the five months before the 2001 contraction. To date this year (January to May 2003), Nonagricultural Employment has already fallen by 1.3 percent. Kentucky Manufacturing Employment has also fallen for the last four consecutive months, a combined 1.6 percent decrease.

On the positive side, Kentucky's Index of Unemployment Insurance Claims was positive for May, breaking its string of three large consecutive losses. US Average Weekly Initial Claims and KY First Pays, the two components of the Index, went in different directions for April, but both declined for May, bringing the Index up substantially.

US Retail Sales growth was small but positive for May, while corporate profits also rose slightly. Consumer Sentiment rose over 12 points for May. All three are signals that real demand is increasing. Continued growth, even weak growth in these areas, could indicate that economic conditions are becoming ripe for recovery.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete article on the indicators was published in the University of Kentucky's *Kentucky Annual Economic Report, 2000*.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- ◆ **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- ◆ **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky UI claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- ◆ **Louisville Help-wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.
- ◆ **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- ◆ **GOEA U.S. Leading Index:** We eliminated two variables, UI Claims and weekly hours, from the U.S. leading index since we already use the Kentucky equivalents. The remaining eight components of the U.S. leading index were tested, eliminating both the interest rate spread and the slower deliveries diffusion index of vendor performance. The remaining six components were then re-indexed by GOEA.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.state.ky.us.

**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2002												2003			
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY			
KY Leading Index (1992=100)	110.7	111.0	111.1	110.9	110.4	110.5	110.6	110.5	110.8	110.5	110.2	109.9	110.0			
% Chg Previous Month SAAR	2.6	3.9	1.0	-2.1	-5.3	0.7	1.8	-0.9	2.8	-2.8	-3.7	-3.5	1.8			
% Chg Same Month Last Year	-0.6	-0.1	0.1	0.2	0.5	0.4	0.6	0.3	0.3	0.0	-0.4	-0.5	-0.6			
KY Coincident Index (1992=100)	127.1	127.5	127.4	127.4	127.4	127.1	127.2	126.9	127.5	127.3	127.0	126.7	126.7			
% Chg Previous Month SAAR	2.4	3.2	-0.3	-0.3	-0.1	-2.9	1.4	-2.9	5.4	-1.7	-3.2	-2.5	0.1			
% Chg Same Month Last Year	-0.6	-0.2	-0.1	0.0	0.2	0.4	0.7	0.5	0.7	0.6	0.1	-0.2	-0.3			
KY Nonag Employment (000s)	1786.6	1785.5	1783.3	1785.3	1785.4	1785.5	1786.4	1781.7	1794.0	1787.2	1784.3	1775.6	1770.0			
% Chg Previous Month SAAR	-0.5	-0.7	-1.4	1.3	0.1	0.0	0.6	-3.1	8.6	-4.5	-1.9	-5.7	-3.7			
% Chg Same Month Last Year	-1.1	-1.3	-1.0	-0.9	-0.5	-0.3	-0.2	-0.2	0.1	0.1	-0.2	-0.7	-0.9			
KY Mfg Employment (000s)	276.5	275.7	274.7	274.3	272.9	273.5	272.9	272.6	273.1	272.8	272.2	270.0	268.7			
% Chg Previous Month SAAR	-5.9	-3.3	-4.1	-1.8	-6.2	2.8	-2.4	-1.6	2.4	-1.2	-2.6	-9.6	-5.3			
% Chg Same Month Last Year	-6.4	-6.0	-5.2	-4.7	-4.5	-3.7	-3.4	-3.2	-2.5	-2.3	-2.2	-2.8	-2.8			
KY Unemployment Rate (%)	5.7	5.6	5.5	5.5	5.4	5.4	5.5	5.5	5.3	5.7	5.7	5.8	5.7			
KY Index of Initial UI Claims	99.7	100.3	100.7	100.5	99.3	99.8	100.6	98.7	100.3	99.8	98.8	98.4	99.0			
% Chg Previous Month SAAR	10.0	7.1	5.0	-1.9	-13.2	5.3	10.3	-19.9	21.2	-6.7	-10.7	-5.1	7.7			
% Chg Same Month Last Year	0.4	0.7	0.9	1.0	0.9	3.0	2.6	-0.6	0.3	-0.7	-0.8	-0.5	-0.7			
KY Labor Intensity Index (1992=100)	105.1	105.1	105.4	105.2	105.3	105.2	105.0	105.3	105.1	104.9	104.2	104.3	104.2			
% Chg Previous Month SAAR	-0.5	0.4	2.8	-2.0	0.7	-0.2	-3.0	3.5	-2.4	-1.6	-7.6	1.1	-1.3			
% Chg Same Month Last Year	-1.3	-1.2	-0.7	-0.8	-0.4	-0.2	-0.3	-0.1	-0.1	-0.3	-1.0	-0.8	-0.8			
Louisville HWI (1992=100)	66.0	71.0	64.0	60.0	58.0	58.0	57.0	53.0	55.0	60.0	58.0	50.0	47.0			
% Chg Previous Month SAAR	157.4	140.2	-71.2	-53.9	-33.4	0.0	-18.8	-58.2	56.0	184.1	-33.4	-83.2	-52.4			
% Chg Same Month Last Year	-34.7	-20.2	-24.7	-21.1	-20.5	-10.8	-9.5	-8.6	-8.3	0.0	-13.4	-18.0	-28.8			
GF Total Receipts (\$ mil)	429.9	608.0	435.5	488.5	655.5	570.8	527.2	642.1	635.4	419.7	438.0	696.4	416.4			
% Chg Same Month Last Year	-10.8	0.9	-3.2	12.9	6.1	13.0	1.3	5.4	14.4	-3.1	1.8	-0.5	-3.1			
GF Sales & Use Receipts (\$ mil)	189.6	191.5	201.7	231.2	201.2	217.5	189.0	192.5	233.3	150.6	165.6	199.7	190.2			
% Chg Same Month Last Year	3.8	1.9	-1.2	25.7	6.1	10.7	-0.7	-1.2	-1.2	-3.6	-1.3	0.1	0.3			
GF Income Tax Receipts (\$ mil)	155.4	271.9	187.6	203.9	279.0	237.7	217.1	227.9	290.9	204.7	117.0	354.4	158.2			
% Chg Same Month Last Year	-26.2	-1.5	-2.9	0.7	-2.9	10.2	4.0	-3.2	28.9	-3.7	-0.6	-5.8	1.8			

**SELECTED U.S. ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2002												2003			
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY			
US Leading Index (1982=100)	111.4	111.2	111.0	110.9	110.4	110.4	111.0	111.2	111.2	110.6	110.4	110.5	111.7			
% Chg Previous Month SAAR	6.7	-2.1	-2.1	-1.1	-5.3	0.0	6.7	2.2	0.0	-6.3	-2.1	1.1	13.8			
% Chg Same Month Last Year	2.6	2.3	1.8	1.8	2.2	1.8	1.6	0.6	0.2	-0.4	-0.5	-0.3	0.3			
US Coincident Index (1992=100)	114.8	115.1	115.3	115.3	115.2	115.2	115.3	115.2	115.5	115.1	115.0	115.0	115.1			
% Chg Previous Month SAAR	1.1	3.2	2.1	0.0	-1.0	0.0	1.0	-1.0	3.2	-4.1	-1.0	0.0	1.0			
% Chg Same Month Last Year	-0.5	0.0	0.1	0.1	0.4	0.4	0.9	0.7	0.8	0.6	0.4	0.3	0.3			
US Nonag Employment (mil)	130.4	130.4	130.2	130.2	130.3	130.4	130.4	130.2	130.4	130.2	130.1	130.1	130.0			
% Chg Previous Month SAAR	0.0	-0.3	-1.6	0.2	0.6	1.1	0.0	-1.9	1.5	-1.1	-1.4	-0.2	-0.6			
% Chg Same Month Last Year	-1.4	-1.3	-1.3	-1.1	-1.0	-0.6	-0.4	-0.4	-0.2	-0.2	-0.3	-0.3	-0.3			
US Unemployment Rate (%)	5.8	5.8	5.8	5.8	5.7	5.8	5.9	6.0	5.7	5.8	5.8	6.0	6.1			
US Initial Claims for UI (000s)	408.1	392.1	386.8	397.8	416.9	410.6	389.0	410.5	386.7	408.6	423.3	447.2	431.6			
% Chg Previous Month SAAR	-50.2	-38.1	-15.1	40.0	75.6	-16.7	-47.7	90.7	-51.2	93.7	52.8	93.3	-34.7			
% Chg Same Month Last Year	0.9	-1.3	-2.6	-0.6	-7.1	-15.5	-14.2	2.0	-3.6	5.0	0.8	3.4	5.8			
Industrial Production Index	110.4	110.8	111.6	111.3	111.2	110.6	110.8	109.9	110.7	110.7	110.1	109.5	109.6			
% Chg Previous Month SAAR	3.7	4.1	8.5	-2.9	-0.7	-6.9	2.4	-9.4	8.9	0.7	-6.9	-5.9	0.7			
% Chg Same Month Last Year	-1.3	-0.3	0.5	0.6	1.2	1.0	1.8	1.4	1.6	1.4	0.4	-0.5	-0.8			
US Personal Inc. Less Trans. (bil 92\$)	6877.2	6922.4	6876.9	6879.2	6881.0	6863.9	6874.2	6893.8	6896.7	6887.3	6875.6	6898.6	6921.2			
% Chg Previous Month SAAR	5.4	8.2	-7.6	0.4	0.3	-2.9	1.8	3.5	0.5	-1.6	-2.0	4.1	4.0			
% Chg Same Month Last Year	0.4	1.1	0.3	0.4	0.0	0.8	0.9	0.6	0.8	0.4	0.1	0.8	0.6			
CPI, All Urban (1982-84=100)	179.5	179.8	180.1	180.5	180.9	181.2	181.4	181.6	182.2	183.3	183.9	183.3	183.3			
% Chg Previous Month SAAR	1.3	2.0	2.0	2.7	2.7	2.0	1.3	1.3	4.0	7.5	4.0	-3.8	0.0			
% Chg Same Month Last Year	1.2	1.1	1.5	1.7	1.6	2.0	2.3	2.4	2.6	3.0	3.0	2.2	2.1			
Retail Sales (bil 84\$)	293.9	297.8	302.4	304.3	299.2	299.5	301.7	305.8	307.0	302.7	309.6	308.7	308.8			
% Chg Previous Month SAAR	-14.8	17.3	19.9	7.9	-18.2	1.0	9.4	17.6	4.9	-15.6	30.7	-3.4	0.5			
% Chg Same Month Last Year	1.7	3.5	4.9	5.1	5.2	-0.8	2.7	4.3	5.0	3.0	5.4	3.6	5.1			
Manufacturing & Trade Sales (000s)	856.2	859.3	868.4	867.4	859.0	861.4	867.3	870.7	876.1	857.6	868.0	866.1	*863.0			
% Chg Previous Month SAAR	-1.2	4.5	13.5	-1.4	-11.0	3.4	8.5	4.8	7.8	-22.6	15.5	-2.5	-4.3			
% Chg Same Month Last Year	1.7	3.1	3.2	2.6	4.6	1.4	2.5	2.5	2.2	1.0	2.3	1.1	0.8			
US Consumer Sentiment (1966=100)	92.7	87.9	81.0	80.6	79.9	73.1	78.5	80.8	72.8	69.9	69.6	79.3	91.4			
% Chg Previous Month AR	60.9	-47.2	-62.5	-5.8	-9.9	-65.6	135.2	41.4	-71.4	-38.6	-5.0	378.6	449.6			
% Chg Same Month Last Year	8.5	1.2	-8.4	-5.4	8.7	-3.2	2.5	-1.8	-20.3	-19.8	-24.9	-11.0	-1.4			
Bank Prime Interest Rate (%)	4.75	4.75	4.75	4.75	4.75	4.75	4.35	4.25	4.25	4.25	4.25	4.25	4.25			